UNIVERSAL SECTIONS LIMITED

Annual Report 1973

PRESIDENT'S REPORT TO THE SHAREHOLDERS

Your Company has achieved good growth in sales and profits, continuing the upward trend started the previous year.

During the year, reorganization continued, shoring up the weak spots in the Company's activities. In the last quarter, head offices and the main plants were moved to a new custom-built 90,000 square foot building on 6 acres at 60 Esna Park Drive, Markham, Ontario. This is just north of Woodbine and Steeles, a very central location.

In the fiscal year reported, the costs and disruptions of relocation had to be absorbed.

The main plant vacated by your Company at 100 Canadian Road, Scarborough, Ontario is now occupied by two affiliated companies, Foam-Form Canada Limited and Professional Machine & Tool Company Limited. These two affiliates had outgrown their previous premises and are now operating under much improved conditions.

EVENTS AFTER THE YEAR END

— The move to new premises has made the Toronto plant much more efficient and has doubled its output capability.

Your Company has entered into an agreement to manufacture under licence a new folding door made out of 6 inch rolled steel, prepainted in wood grain or ivory, hinged by flexible vinyl strips. Manufacturing will begin in October.

These doors are already being manufactured in Edmonton, Alberta by a new subsidiary, Côn-Tec Industries Ltd. Sales in Alberta are now in the range of $600,000 annually.

These doors follow the pattern of increasing your Company's share of the housing market by replacing other materials such as wood with steel or aluminum. This product will fit in well with the aluminum soffits, steel joists and steel studs.

— Professional Machine & Tool Company Limited has gone out of the stage of almost exclusively servicing the Universal group. It has reorganized and moved to 100 Canadian Road, quadrupling its manufacturing space. It has increased its engineering staff, added sales staff for the first time, and acquired new equipment.

The results have been quick. This year their volume will be nearly three times what it was last year. Its line of roll forming and ancillary equipment and its tool making capacity are highly regarded. There is a huge backlog of orders for machinery and tools throughout the world.

Steel shaping equipment is a $200,000,000 business in the U.S.A. and Canada. This division therefore has much growth potential.

— Foam-Form Canada Limited has seen seven plants opened by its licensees, and a number more planned.

With the ever-increasing costs of building a wall, together with the short supply of skilled tradesmen and products such as brick, the Foam-Form method of construction becomes increasingly competitive.

With the shortages and high cost of energy, the insulating factor of the Foam-Form block is ever more important.

All of Canada and the U.S.A., except for some of the western states, have been licensed. More licences are being negotiated, with present emphasis in Europe.

— Our Calgary operation has moved to new premises and their much improved handling facilities should show results this year.

— Our Edmonton operation has continued to do well; they have raised their manufacturing capacity, as well as opened Con-Tec Industries Ltd. as above.

— Rothwell-Perrin Limited, our housing division, has a good backlog of orders from individual developers and has acquired a small land bank on which they will erect their own houses for direct selling. Work on these projects has already been started.

EUROPE

Your Company has entered into a joint venture in Newry, Ireland under the name of Yardmaster Limited to manufacture a line of consumer goods such as steel garden sheds and home shelving. Professional Machine & Tool is building the equipment and manufacturing will commence late fall.

Commensurately, Universal has sold equipment to the joint venture to manufacture one specific line of building products. Some of this machinery is already in Ireland and operating. We do not anticipate results for the year ending March 1974. The next fiscal year should benefit greatly from this move.

For this venture, the capital was raised as follows:

Grant from the Ministry of Commerce	$ 947,000
Northern Ireland Finance Corporation — Investment in cumulative participating preferred shares	225,000
Ministry of Commerce — Term financing for plant over 21 years	390,000
Ulster Bank Limited — Current and Term Loan	412,500
TOTAL	$1,974,500

These figures are not included in this report.

This is our first step to enter the European Common Market and more is under present discussion.

OUTLOOK

Our volume and profit this year continues at an improved pace limited only by a short supply of steel and aluminum as well as a shortage of manpower. Benefits from development and promotion of some of our new products will contribute somewhat to profits this year but will not be fully felt until next year when raw materials will be more readily available.

Construction continues at a brisk pace and your company is continuing to capture a greater part of that market, both geographically and in its greater input of material per house.

— Montreal Operations:— Lightsteel-Gero Limited and Alva-Craft Company Limited are experiencing a burst of growth. Quebec is undergoing a huge recovery and peripherally, there is a great deal of activity in the Maritimes. The economic growth in Quebec is gaining momentum and the next few years should be very positive. Some expansion to our plant capacity is necessary and is being planned presently.

— Our U.S.A. operation in Florida is functioning well and ought to have a beneficial effect on profits this year.

CORPORATE ORGANIZATION

We have this year moved further to strengthen individual divisions by putting more responsibilities on regional managers. Toronto became another region with the appointment of a Vice President — Ontario, with full responsibilities over Toronto operations.

A new position has been created with the appointment of Mr. George Wither as Vice President — European Operations. He has moved to the U.K. and we welcome him on the team.

Financial control has been strengthened with the appointment of a new Vice President -- Finance.

We are most confident of a favourable rate of progress as our skilled managements running the various divisions of the Universal group continue to seek ways to expand profitably in a favourable business climate.

We believe that we have minimized the effect of any valleys there may be in the construction industry as we have diversified geographically and have developed products that should give the Company a greater dollar input per unit built.

APPRECIATION

Finally, I wish to extend our deepest appreciation for the work done by our most capable managers, their staff and employees. Investment in people is the single most important factor in a business. With the addition the Company has made this year to the management team, we can expect the achievements to be even greater.

On behalf of the Board of Directors,

Maurice Fagan, President.

September 12, 1973.

CONSOLIDATED STATEMENT OF INCOME
Year Ended March 31, 1973
(with comparative figures for 1972)

	1973	1972 (as restated — note 4)
Sales	$23,807,766	$20,901,433
Cost of sales and expenses other than undernoted items	22,452,815	19,655,432
	1,354,951	1,246,001
Depreciation and amortization	371,738	475,379
Remuneration of directors and senior officers	137,800	125,900
Interest on long-term debt	93,989	108,676
Other interest expense	206,855	227,685
	810,382	937,640
Income before the undernoted items	544,569	308,361
Income taxes		
Current	321,100	78,000
Deferred	(64,000)	29,500
	257,100	107,500
Income from operations	287,469	200,861
Equity in income (loss) before extraordinary item of 50% owned companies (note 4)	100,913	(46,235)
	388,382	154,626
Interest of minority shareholders in net income of subsidiary companies	2,119	4,260
Income before extraordinary items	386,263	150,366
Extraordinary items		
Gains on sale of land and buildings, less in 1972 current income taxes of $11,165 and deferred income taxes of $26,500		233,619
Income tax reductions on loss carry forwards:		
Subsidiary companies	69,334	
50% owned company	63,000	
	132,334	233,619
Net income for the year	$ 518,597	$ 383,985
Earnings per share		
Income before extraordinary item	$ 0.84	$ 0.32
Net income for the year	$ 1.12	$ 0.83

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended March 31, 1973
(with comparative figures for 1972)

	1973	1972 (as restated)
Balance at beginning of year		
As previously reported	$ 2,013,525	$ 1,574,956
Adjustment to equity in 50% owned company (note 4)	(234,136)	(179,552)
Adjustment of prior year's income taxes	(24,500)	(24,500)
As restated	1,754,889	1,370,904
Net income for the year	518,597	383,985
Balance at end of year	$ 2,273,486	$ 1,754,889

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
Year Ended March 31, 1973
(with comparative figures for 1972)

	1973	1972
Source of funds		
Income from operations	$ 287,469	$ 200,861
Items not involving current funds		
Depreciation and amortization	371,738	475,379
Income taxes	5,334	29,500
	664,541	705,740
Issue of capital stock	42,259	
Increase in long-term debt	41,207	347,179
Sale of fixed assets	17,221	994,918
Sale of licence	75,000	
Decrease in advances to 50% owned companies	292,806	
Decrease in other investments		15,000
	1,133,034	2,062,837
Application of funds		
Additions to fixed assets	396,411	485,225
Licence fees receivable	336,000	
Increase in deferred charges	9,744	73,292
Debenture receivable	125,651	
Increase in patents and licences		3,750
Decrease in non-current portion of long-term debt	138,874	1,057,579
Minority shareholders' dividend, preference shares of subsidiary company	2,119	4,260
Increase in advances to 50% owned companies		169,131
Increase in other receivables	79,301	93,000
Other	58,938	
	1,147,038	1,886,237
Increase (decrease) in working capital	(14,004)	176,600
Working capital at beginning of year	374,082	197,482
Working capital at end of year	$ 360,078	$ 374,082

CONSOLIDATED BALANCE SHEET — MARCH 31, 1973
(with comparative figures at March 31, 1972)

ASSETS	1973	1972 (as restated)
Current Assets		
Accounts receivable (note 2)	$ 5,616,700	$ 4,412,371
Inventories (note 3)	3,402,563	3,107,030
Prepaid expenses	88,875	104,077
	9,108,138	7,623,478
Investments		
Interest in 50% owned companies (note 4)	175,031	308,009
Licence fees receivable (note 4)	336,000	
Debenture receivable	125,651	
	636,682	308,009
Fixed Assets (note 5)		
Land, buildings and equipment, at cost	4,801,518	4,513,214
Less accumulated depreciation	2,799,355	2,518,503
	2,002,163	1,994,711
Other Assets and Deferred Charges		
Deferred charges, less amortization	221,993	212,249
Patents and licences, at cost less amortization (note 6)	55,115	130,459
Other receivables	184,499	105,198
Excess of cost over book value at dates of acquiring shares of subsidiaries	442,326	442,326
Goodwill	85,000	25,000
	988,933	915,232
	$12,735,916	$10,841,430

Approved by the Board

Maurice Fagan, Director

Richard J. Chopping, Director

LIABILITIES	1973	1972 (as restated)
Current Liabilities		
Bank advances (note 7)	$ 3,643,654	$ 3,707,620
Accounts payable and accrued liabilities (note 8)	4,589,976	3,225,389
Income and other taxes payable	344,075	186,172
Notes payable	49,700	
Principal due within one year on long-term debt	120,655	130,215
	8,748,060	7,249,396
Long-Term Debt (note 9)	735,182	832,849
Deferred Income Taxes	275,300	339,300
Interest of Minority Preference Shareholders in Subsidiary Company	74,093	77,460
SHAREHOLDERS' EQUITY		
Capital Stock (note 10)		
Authorized — 600,000 shares without par value		
Issued — 467,030 shares (1972, 461,300 shares)	629,795	587,536
Retained Earnings	2,273,486	1,754,889
	2,903,281	2,342,425
	$12,735,916	$10,841,430

Contingent liabilities (note 11)
Long-term leases (note 12)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended March 31, 1973

1. Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies, which in Canada are: Soffit Systems Limited, Lightsteel-Gero Limited, Alva-Craft Company Ltd., Rothwell-Perrin Limited, Alberta Drywall Supply Ltd., Alberta Drywall Supply (Calgary) Ltd., Universal Builders Supplies (1968) Ltd., Con-Tec Industries Ltd., and L & P Suppliers Limited; and in the United States are: Allsteel Rolled Products, Inc. and Universal Sections Inc.

2. Accounts Receivable

Included in accounts receivable are amounts due from 50% owned companies of $124,943 comprising Foam-Form Canada Limited $123,024, and Professional Machine & Tool Company Limited $1,919.

3. Inventories

	1973	1972
Manufacturing		
Raw materials and supplies, at lower cost and replacement cost	$1,585,415	$1,233,860
Finished goods, at lower of cost and net realizable value . . .	1,779,905	1,765,119
	3,365,320	2,998,979
Model homes and machinery for resale, at cost	37,243	108,051
	$3,402,563	$3,107,030

4. Interest in 50% Owned Companies

In prior years the company carried its investment in the 50% owned company, Foam-Form Canada Limited, at cost as that company was in the development stage. In the current year the company has changed its accounting practice to the equity basis to conform with the method of carrying other 50% owned companies as Foam-Form is no longer considered to be in the development stage. Retained earnings at beginning of year and the 1972 figures have been restated to retroactively reflect this change in practice.

This change in practice has resulted in decreasing net income for 1972 by $54,584 ($.12 per share) from that previously reported.

As partial settlement of advances to the 50% owned company, Foam-Form Canada Limited, Foam-Form has assigned to Universal accounts receivable totalling $411,000 arising from the sale of licences in connection with a patented foam form block.

Universal has a right of recourse to Foam-Form if these accounts prove uncollectible. Foam-Form commenced commercial operations in the 1973 fiscal year by the sale of licences and equipment.

Full collection of the licences receivable of $336,000 and advances to Foam-Form of approximately $270,000 are dependent upon the licensees achieving profitable operations. To date the licensees have paid all obligations when due under the terms of their agreements. The licensees have opened seven new plants to date and three licensees have commenced royalty payments under the terms of their agreements.

5. Fixed Assets

	1973			1972
	Cost	Accumulated depreciation	Net	Net
Land.	$ 61,794		$ 61,794	$ 92,799
Buildings.	500,331	$ 165,635	334,696	313,133
Machinery and equipment	3,521,861	2,118,296	1,403,565	1,427,750
Office and automotive equipment	717,532	515,424	202,108	161,029
	$4,801,518	$2,799,355	$2,002,163	$1,994,711

Notes Continued

During the current year two subsidiary companies determined the estimated useful life of larger rolls and dies to be longer than previously estimated. As a result depreciation has been decreased by approximately $83,000 and net income after taxes increased by approximately $42,000.

6. Patents and Licences

	1973			1972
	Cost	Amortization	Net	Net
Licences	$51,142		$51,142	$126,142
Patents	5,842	$1,869	3,973	4,317
	$56,984	$1,869	$55,115	$130,459

There is a commitment to pay approximately an additional $146,000 for licences, contingent upon satisfactory performance of certain equipment. If the equipment performance is not satisfactory, all monies paid to date, $51,142, are refundable.

7. Bank Advances

The bank advances are secured by pledge of book debts and in some cases inventory, and in one subsidiary by a demand debenture over that company's assets.

8. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are amounts due to 50% owned companies of $119,708.

9. Long-Term Debt

	1973	1972
Mortages		
8% Payable on performance of an obligation by the mortgagee.		$ 30,592
8% Payable $1,000 per month including principal and interest to maturity on March 23, 1975. . . .	$ 24,000	36,000
12½% Payable $5,000 principal plus interest quarterly to maturity on June 30, 1981.	170,000	179,984
Account payable subsequently secured by a note payable and collaterally secured by a 10% mortgage payable June 5, 1977.		93,000
Secured notes, secured by property, at rates from 7½% to 8% payable in instalments to July, 1974.	53,135	54,588
10% Due December 15, 1974.	43,172	43,172
Conditional sales contracts at varying interest rates payable in instalments to May, 1975	13,750	15,155
Unsecured notes payable, due in instalments up to 1975, of which $23,832 is interest-free, $24,577 (1972, $136,808) are at current bank rates and balance to 6% to 10%.	551,780	510,573
	855,837	963,064
Less principal included in current liabilities.	120,655	130,215
	$735,182	$832,849

Included in unsecured notes payable are liabilities to shareholders of $103,030 (1972, $248,219).

Notes Continued

10. Capital Stock

During the year the company issued 5,730 common shares as follows:

Shares		Amount
3,333	to reduce a note payable	$24,580
1,500	as employee bonuses	11,064
897	for cash	6,615
5,730		$42,259

At March 31, 1973 there were options outstanding to purchase 14,970 shares under an employee stock option plan at a price of $7.375 per share until June 1, 1975.

11. Contingent Liabilities

The company has guaranteed bank loans of 50% owned companies to a maximum of $175,000. The loans outstanding at March 31, 1973 amounted to $166,000.

12. Long Term Leases

Property	Expiry	Annual Rental
Land and buildings	June, 1991	$54,441
Land and buildings	October, 1993	48,000
Land and buildings	October, 1988	42,000
Land	April, 1988	2,331
Production machinery and office equipment	May, 1975 to January, 1978	72,669
Land and buildings	November 14, 1992	103,500

13. Account Receivable

A subsidiary company, Rothwell-Perrin Limited has made a 100% provision against an account receivable of approximately $193,000 against which it holds a mechanics lien on an apartment complex. The property with an original cost of approximately $1,100,000 has recently been appraised by independent valuators on an economic basis at $700,000 mainly because of the high vacancy rate. There was a first mortgage on the property, which has been foreclosed in 1973 and amounted to approximately $900,000 at the date of foreclosure by the mortgagee. It is the company's intention to attempt to recover the receivable by arranging to acquire the apartment complex with suitable mortgage financing and to operate the complex at a profit by reducing the vacancy rate.

AUDITORS' REPORT

To the Shareholders of Universal Sections Limited

We have examined the consolidated balance sheet of Universal Sections Limited and subsidiary companies as at March 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of Universal Sections Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, subject to the collectibility of amounts receivable as set out in note 4, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, after giving retroactive effect to the change in accounting practice set out in note 4, have been applied on a basis consistent with that of the preceding year.

THORNE GUNN & CO.
Chartered Accountants

Toronto, Canada
September 6, 1973

FINANCIAL SUMMARY

Operating Results	1973	1972	1971	1970	1969
Sales	23.8m	20.9m	16.6m	19.3m	13.3m
Income (loss) from operations before income taxes, including 50% owned companies	645,482	262,126	(443,769)	372,550	561,232
Net income (loss)	518,597	383,985	(363,050)	219,607	369,901
Earnings per Share before extraordinary	84¢	32¢	(79¢)	42¢	69¢
Including extraordinary	$1.12	83¢	(79¢)	48¢	85¢
Financial					
Assets	12.7m	10.8m	10.9m	11.4m	9.0m
Long-term debt	735,000	832,000	1.5m	1.6m	1.1m
Current Assets	9.1m	7.6m	7.0m	7.9m	6.3m
Current Liabilities	8.7m	7.2m	6.8m	6.9m	5.1m
Working Capital	360,078	374,082	197,482	976,908	1,099,433
Ratio	1:1	1:1	1:1	1.1:1	1.2:1
Net fixed assets	2,002,000	1,994,000	2,643,000	2,400,000	2,028,000
Depreciation & amortization	371,738	475,379	479,416	424,256	261,648
Retained earnings	2.3m	1.7m	1.6m	1.9m	1.8m
Shareholder equity	2.9m	2.3m	2.2m	2.5m	2.3m
Per share	$6.22	$5.64	$4.69	$5.47	$4.80

CORPORATE ORGANIZATION

BOARD OF DIRECTORS	Maurice Fagan, B.A., LL.B. Gerry Rousseau K. G. R. Gwynne-Timothy, Q.C. John Burchynsky John Bossons, Ph.D. Richard J. Chopping, C.A. Henry Fagan	
PRESIDENT	Maurice Fagan, B.A., LL.B.	
VICE PRESIDENTS	Finance	S. Meek, C.A.
	Ontario	W. Smart
	Eastern Canada	G. Rousseau
	Western Canada	J. Burchynsky
	U.S.A.	L. Greedy
	Europe	G. Wither
	Marketing	H. McKay
TREASURER	B. Rourke	
SECRETARY	K. G. R. Gwynne-Timothy, Q.C.	
DIVISIONAL MANAGERS	Housing	J. Clift
	Ottawa	J. Connolly
	Calgary	D. Koyich
	Steel Door Frames	R. Wolosianski
	Folding Doors	W. Runka

BANKERS	The Canadian Imperial Bank of Commerce
TRANSFER AGENTS AND REGISTRAR	Canada Permanent Trust Company
AUDITORS	Thorne Gunn & Co.
COMMON SHARES	Listed, Toronto Stock Exchange
HEAD OFFICE	60 Esna Park Drive Markham, Ontario